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ZNY CCCCC ZZH
P 141041Z MAR 07
FM AMEMBASSY LUANDA
TO RUEHC/SECSTATE WASHDC PRIORITY 3800
INFO RUEAWJA/DEPT OF JUSTICE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RHEHNSC/NSC WASHDC

C O N F I D E N T I A L LUANDA 000250

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E.O. 12958: DECL: 03/13/2017
TAGS: [EFIN](#) [ECON](#) [AO](#)
SUBJECT: ANGOLA DECIDES NOT TO SEEK IMF AGREEMENT

REF: LUANDA 70

¶1. (SBU) Summary. Angola,s Finance Minister, Pedro de Moraes, announced that Angola will not pursue a program with the IMF. Citing Angola,s progress in combating inflation and its growing foreign exchange reserves, Angola believes it does not need a stand-by agreement to ensure macroeconomic stability. Many financial observers see this as a move to placate the domestic lobby in the run-up to elections. Nonetheless, a number of financial experts in Luanda expect that the GRA will continue to seek IMF technical assistance. The IMF has proposed the visit of a technical team in May. End Summary.

¶2. (SBU) On March 12, 2007, the GRA made public its February 13 decision and notification to the IMF that it would not seek an agreement. Portions of the IMF's February 23 response, suggesting technical meetings in May, were also made public. In his notification letter to the IMF, Finance Minister Jose Pedro de Moraes said he saw no benefit to Angola from an IMF agreement and pointed to Angola,s independent success in macro-economic stabilization and 13 percent GDP growth during the period 2004-2006. Minister Moraes added that Angola,s foreign exchange reserves have grown, permitting it to pay off bilateral debt and secure financing for investment out of its own resources, without relying on external credit.

Looking to the Elections

¶3. (C) World Bank Resident Representative Alberto Chuenca told us he viewed Angola,s domestic politics as the driving force behind the decision. Chuenca believes image is very important to Angola right now: the GRA wants to project the image of a sovereign state and regional power, open to the world and capable of managing its own affairs. An Embassy expat banking contact, longtime resident in Angola, interpreted the move as the GRA not wanting to be subject to international oversight before the elections. He elaborated that the decision can also be seen as primarily a domestic political gesture for MPLA members who would denounce an IMF agreement as selling out to the West. He believed the actual impact would be minimal, and didn,t expect other dramatic moves to further distance the GRA from the international community.

¶4. (C) Chuenca reiterated the connection to elections, noting that President Jose Eduardo dos Santos is reluctant to take any decision that might make him appear to members of his party as beholden to Western powers. Chuenca thought the IMF announcement fit politically with the recent announcement that Sonangol,s operating arm would divest itself of its non-petroleum activities: Angola was demonstrating its

ability to clean its own house.

Implications for IMF and Paris Club

15. (SBU) Our expat banker contact noted that since Angola has just paid the principle and interest on its Paris Club debt, but not the late interest, it may have decided it is willing to pay the late interest rather than enter into an IMF agreement, given that the Paris Club still seems to make debt relief contingent on an agreement with the IMF. IMF technical assistance is widely expected to continue) but out of the public and media spotlight.

The IMF,s Program without the IMF?

16. (SBU) Miguel Alves da Rocha, Professor of Economics at the Catholic University of Angola observed that talks between the IMF and the GRA have continued for years without ever reaching a conclusion. Rocha believes the IMF,s rigidity in prescribing specific policies to achieve transparency contradicted the GRA,s sense of its own sovereignty. Since the IMF would or could not soften its proposals, the GRA decided to stop the process, concluded Rocha. He emphasized however, that the GRA remained committed to incremental practical steps to improve governmental budget accountability and management. During the recent monetary policy workshop in Luanda (reftel), retired experts from the U.S. Federal Reserve system and Treasury, as well as speakers from African central banks proposed actions to control inflation and restrict the appreciation of the Kwanza, he recalled. In fact, Rocha argued, the GRA included such measures in its work plan for 2007-2008. Dr. Rocha also expects the GRA to continue benefiting from IMF technical assistance.

Comment

17. (SBU) Comment: Angola has been famous for the size of its oil-backed lines of credit, estimated by the World Bank at USD 15 billion. Expected revenues cover only 75 percent of the 2007 budget, so the GRA clearly needs international expertise and international finance. The fact that the May technical meetings were made public indicates that the GRA will still pursue technical consultations with the Fund, but not under any formal arrangement at this time. This reinforces the argument that Angola is making a political gesture for domestic consumption and will attempt to minimize its impact in dealings with the IMF and the international community.
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